ABSOLUTE STRATEGY RESEARCH

# ASR Asset Allocation Survey

27th November 2024

# US Assets to Trump the Rest of World

## But at the Risk of Higher US Core Inflation & Higher Bond Yields


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### Investors React Positively to Trump's Election Victory

Asset allocators' initial reaction to Trump's victory has been to paint a more positive picture for risk assets in 2025. Investors think there's a 64% probability that Global Stocks will beat Bonds next year, with preferences for US Equities and for USD.

### But Fears of Higher US Core Inflation have Upset Prospects for Bonds

However, this optimism is tempered by fears of higher US core inflation, to the detriment of US Bonds, prompting a preference for Inflation-Linked over Conventionals. But investors still expect an easing in Global Monetary Conditions.

### Little Alternative to US equities, but Neutral on Tech vs Financials

Within Equities, there is little interest outside US stocks, but our panel has doubts whether Tech will drive equities higher, preferring Cyclicals over Defensives. The panel is split three ways: inflationary & non-inflationary growth and recession bears.


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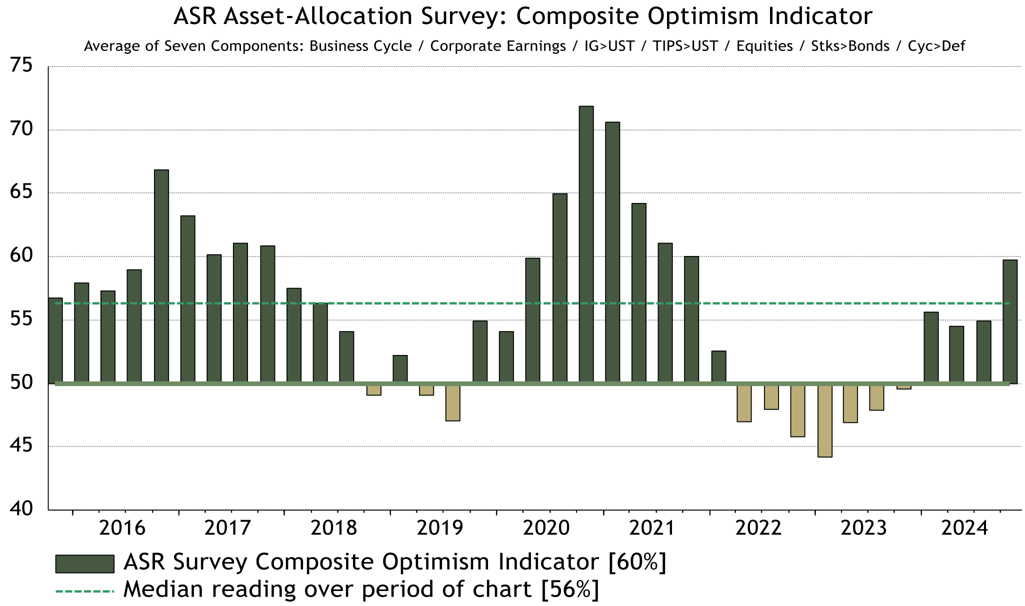
2023 Q4 Survey: Investors See Inflation Dragon Slain, 15th Dec 2023

Measuring the Skill of our Survey Panel, 15th June 2023


### Key Chart: ASR's "Composite Optimism Indicator" Signals Improvement




Source: ASR Ltd.
Based on 282 respondents managing over $11.1trn AUM (Fieldwork: 14th - 20th November 2024)

## Highlights from the Latest Survey

ASR's Asset Allocation Survey provides a Global benchmark of financial-market probabilities going back more than a decade

### ASR's AA Survey: "Benchmarking Financial Probabilities"

- For more than 10 years we have asked CIOs and asset allocators about the outlook for financial markets over the next 12 months.
- Our survey is a Global Benchmark of Financial Probabilities: the likelihood of a financial event occurring in the next 12 months.
- The fieldwork was conducted between 14th and 20th Nov 2024.
- The panel comprised 282 responses, overseeing $11.1 trn AUM.

This latest survey is important as it is the first since the US election; it has also seen some big changes in probabilities

### Key Takeaways from the Latest Survey

1. This is highly important survey – the first since President Trump was elected. There has been a major shift in investors' probabilities. Unusually, the majority of questions have seen their probabilities shift by more 5% points, or more.

The biggest change has been around US inflation expectations

2. The biggest change has been around US inflation expectations. The probability that US core inflation will be higher a year from now has leapt 18% points on the quarter, to stand at 58%. This represents a major shift in inflation expectations, echoed by a double-digit rise in the probability that US inflation-linked Bonds (TIPS) will outperform conventional Treasuries. The move likely reflects investors' concerns about the inflationary consequences of higher tariffs, as well as worries around additional fiscal stimulus at a time when, according to the CBO, the US economy is running a positive output gap. It may also reflect concerns about the impact of the deportation of illegal migrants at a time when the US labour market is tight (note that the probability of a higher US unemployment rate has also fallen 8% points).

The move likely reflects fears that additional fiscal stimulus, higher tariffs, and the rapid deportation of migrants could exert upward pressure on US core inflation

3. This rise in inflation concerns has impacted the outlook for US interest rates. The probabilities of higher 2yr and 10yr bond yields have risen 12% and 10% respectively. There has also been a shift in expectations for Fed Funds. But while the probability of higher US policy rates has risen 13% points on the quarter, the probability remains low at 30%. Interestingly, 30% of panellists still think the Fed will ease even if core inflation is likely to be higher a year from now, while 32% of investors expect the Fed to ease even if Linkers are set to outperform Conventionals.

The concern around core inflation has also led to a rethink about US interest-rate prospects

But while the probability of higher Fed Funds has risen over the quarter, the overall probability remains low

4. Most surprising is that investors still have a high conviction (69% probability) that the US yield curve will steepen (i.e. become more positively sloped) over the next 12 months. Typically, big positive shifts in the US yield curve occur when the US output gap is turning more negative and when the unemployment rate starts to rise. Interestingly, a third of those polled are now explicitly looking for a BEAR steepening, while only a fifth of our panel expect the more conventional BULL steepener.

Investors still expect a more positively sloped yield curve … but a third of those polled are now looking for a BEAR steepener while only a fifth are looking for a traditional BULL steepener

5. What also stands out is a sharp swing in favour of US risk assets, reflecting a belief that capital goes where it is treated best. The probability of a stronger dollar over the next 12 months rose 14% points, to stand at 55%. The probability that US Equities will outperform non-US Equities also rose 11% points to stand at 63%. The more bullish stance on the dollar has also hurt Emerging Markets Equities, with a 7%-point pullback in the likelihood that EM Equities will outperform DM Equities.

US assets are back in favour, as capital shifts to where it believes that capital will be treated best over the next 12 months

The survey is more upbeat about the outlook for the Global economy (lower risk of recession, less negative on China, more upbeat on corporate earnings) …

… but strangely ambivalent about the prospects for the Global business cycle

6. <u>The survey is implicitly more upbeat about the outlook for the Global economy</u>. The risk of Global recession has fallen by 5% to stand at 36% (the lowest probability in three years). Investors are also less downbeat about China's ability to grow GDP by 5% or more over the coming year, thanks to its stimulus package. And the likelihood of a higher Global corporate earnings over the next 12 months rose 6% points to stand at a robust 67%, which helps explain the rise in the probability that Global Cyclical Sectors will outperform their Defensive peers. One puzzle is why investors remain ambivalent about the direction of the Global business cycle. The probability of a stronger cycle remained broadly unchanged at 55%, in contrast with other questions.

Investors have become more sceptical that Treasuries will beat Cash over the coming year

Treasuries are also expected to underperform Linkers, Credit, and Real Assets

7. <u>The survey points to some significant asset-allocation changes reflecting a more negative view of US Treasuries</u> (and Bonds more generally). The probability of higher 2yr and 10yr yields on a 12-month view rose 12% and 10% respectively on the quarter. Moreover, the probability that Treasuries will outperform Cash has fallen 11% points on the quarter, to stand at just 53%. <u>Treasuries are also expected to underperform</u> Inflation-Linked Bonds (57% probability), US Corporate Credit (59% probability), and Real Assets (62% probability).

Investors have become more confident that Global Stocks will beat Global Bonds

Inflation is a risk – but not a problem so long as Central Banks are willing to ease Monetary Conditions

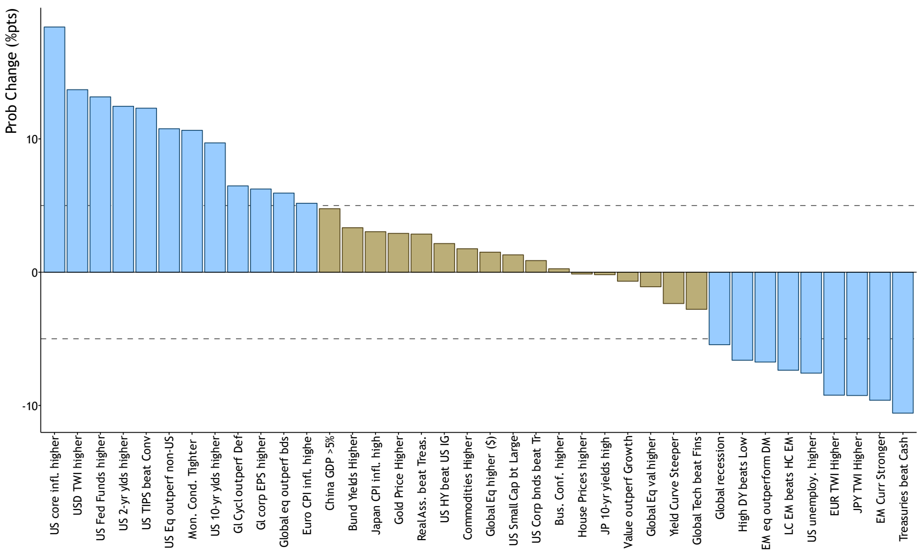
8. At the Global level, <u>the probability that Equities will outperform Bonds rose 6% on the quarter to stand at 64% - the highest probability in three years</u>. All-in-all, this is an upbeat survey for US risk assets – and a positive view overall, as reflected in the sharp rise of the Composite Optimism Index (see the front-page chart). The caveat lies with the outlook for inflation, and what that means for Central-Bank policies. <u>Investors still believe that Global Monetary Conditions are unlikely to be tighter a year from now</u> (with a probability of just 37%). This seems to suggest that they believe that Central Banks will look through any inflation risks and continue with the monetary-easing cycle.

New Question: There is a 57% probability that Bitcoin will be higher a year compared with 61% for Gold

9. In a new question, <u>investors think there's a 57% probability that Bitcoin will be higher in 12m time</u> (compared with 61% for Gold).

**AAS. 1: How Probabilities have Changed since the Previous Survey**

Unusually, the majority of the probabilities in our survey moved by more than 5% points compared with the previous wave

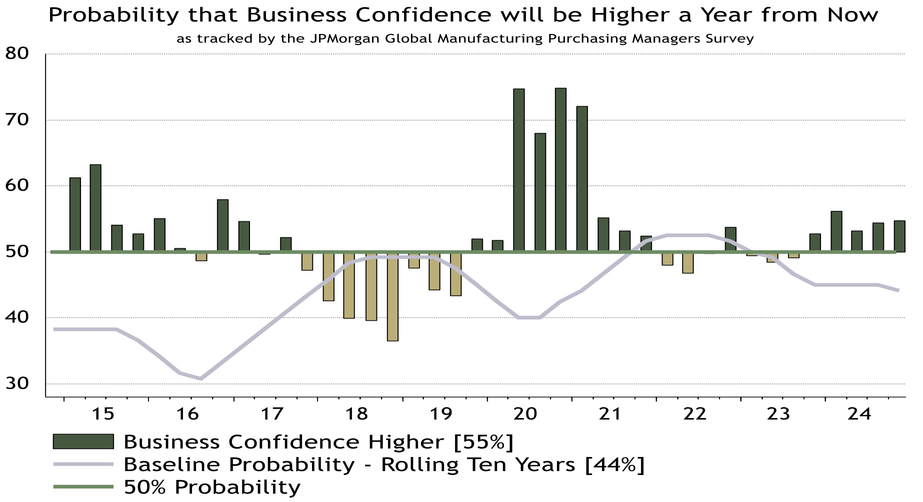



Source: ASR Ltd.

## Macro Assumptions

### AAS. 2: Probability of Higher Business Confidence a Year from Now

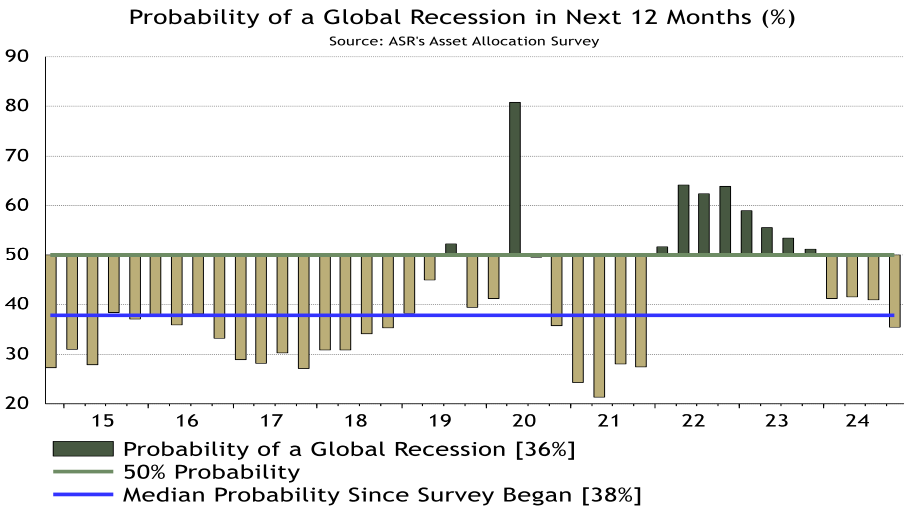
For choice, the panel expects the Business Cycle to be higher a year from now




Source: ASR Ltd. / LSEG Datastream

### AAS. 3: Probability of a Global Recession in the Next 12 Months

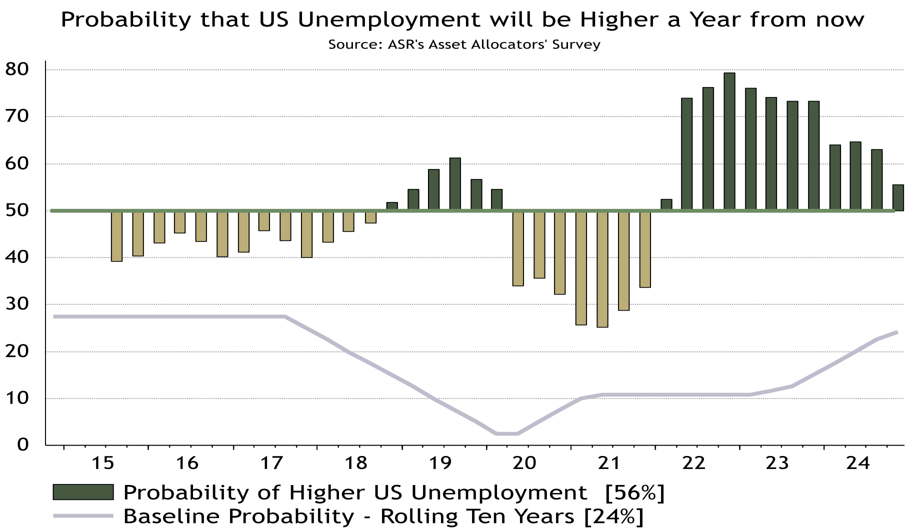
More importantly, the risk of recession has now fallen back below the median reading of the past decade




Source: ASR Ltd. / LSEG Datastream

### AAS. 4: Probability of Higher US Unemployment Rate in 12m Time

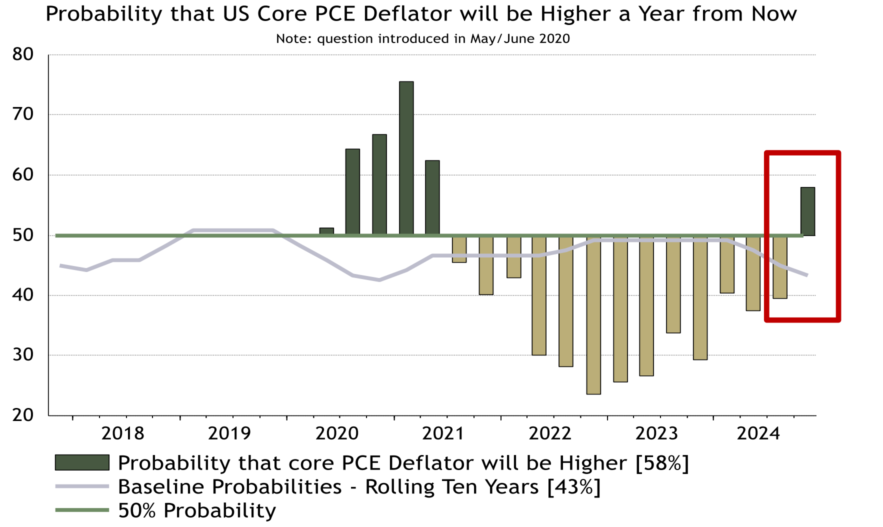
Investors are becoming less worried that the US unemployment rate will be higher a year from now




Source: ASR Ltd. / LSEG Datastream

The greatest shift in view from the previous survey is around inflation, with our panel now expecting higher US core inflation in 2025

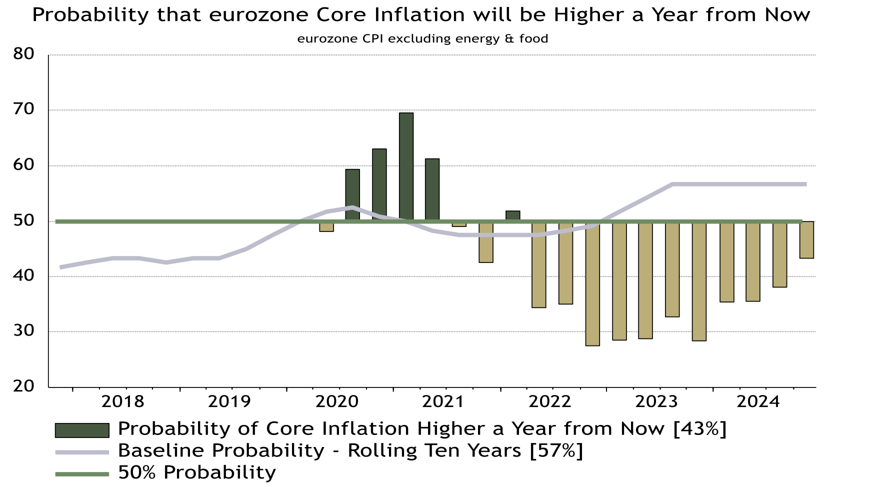
### AAS. 5: Probability that US Core PCE Deflator will be Higher




Source: ASR Ltd. / LSEG Datastream

But the probability of higher core eurozone inflation next year remains below 50%

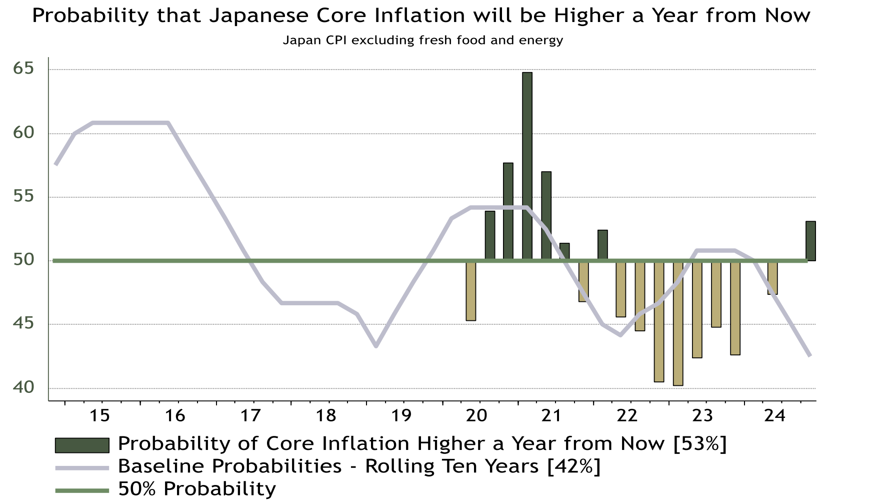
### AAS. 6: Probability that eurozone Core CPI will be Higher




Source: ASR Ltd. / LSEG Datastream

The probability that core Japanese inflation will be higher in 12m time is now back above 50% for the first time in almost three years

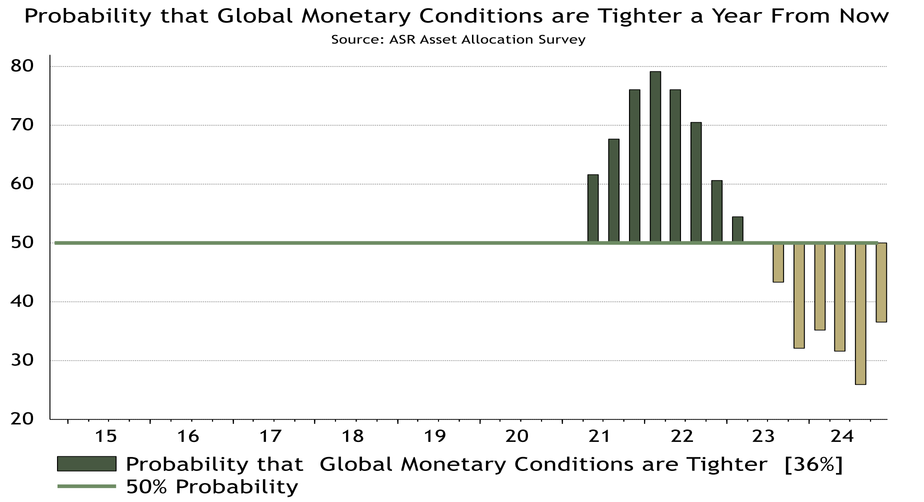
### AAS. 7: Probability that Japanese Core CPI will be Higher




Source: ASR Ltd. / LSEG Datastream

### AAS. 8: Probability that Global Monetary Conditions will be Tighter

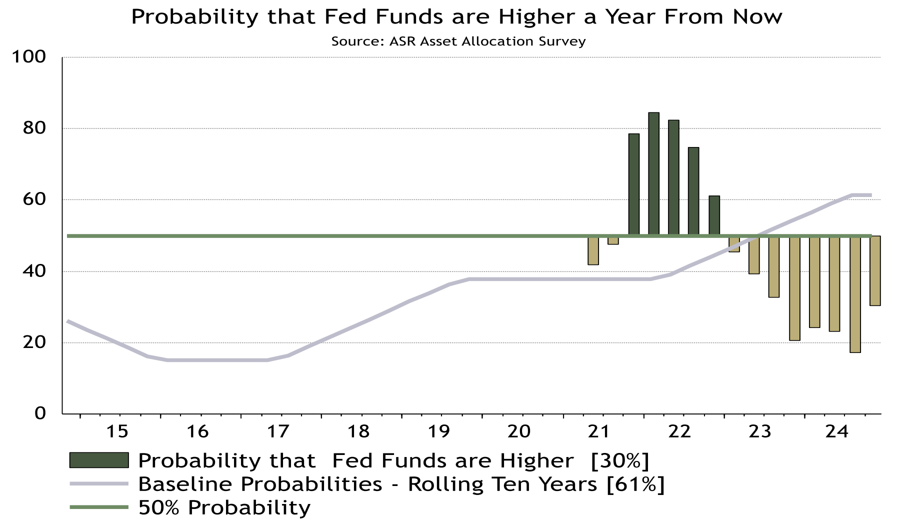
Despite the worries around inflation, our panel still thinks that it is unlikely that Global Monetary Conditions will be tighter a year from now




Source: ASR Ltd. / LSEG Datastream

### AAS. 9: Probability that US Fed Funds Rate will be Higher

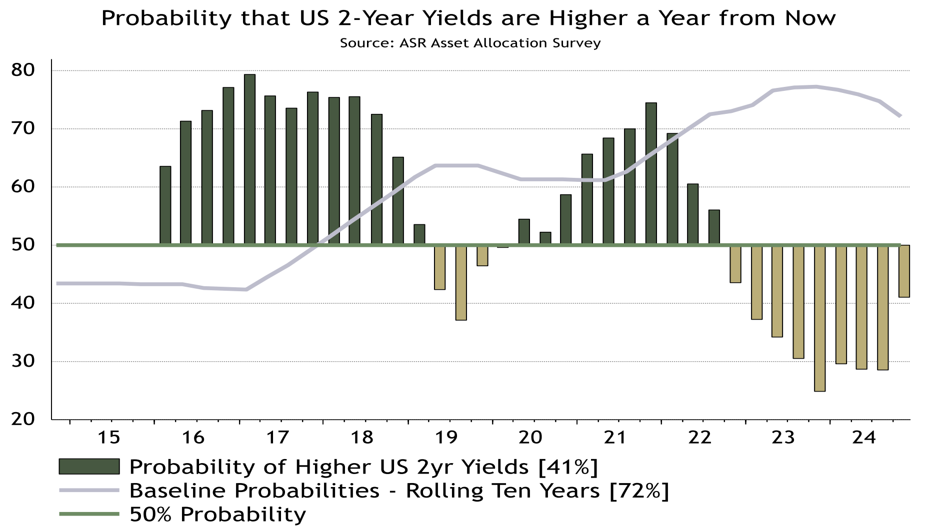
Likewise, our panel still expects lower US policy rates, but without as much conviction as in Q3




Source: ASR Ltd./ LSEG Datastream

### AAS.10: Probability of Higher 2yr Treasury Yields a Year from Now

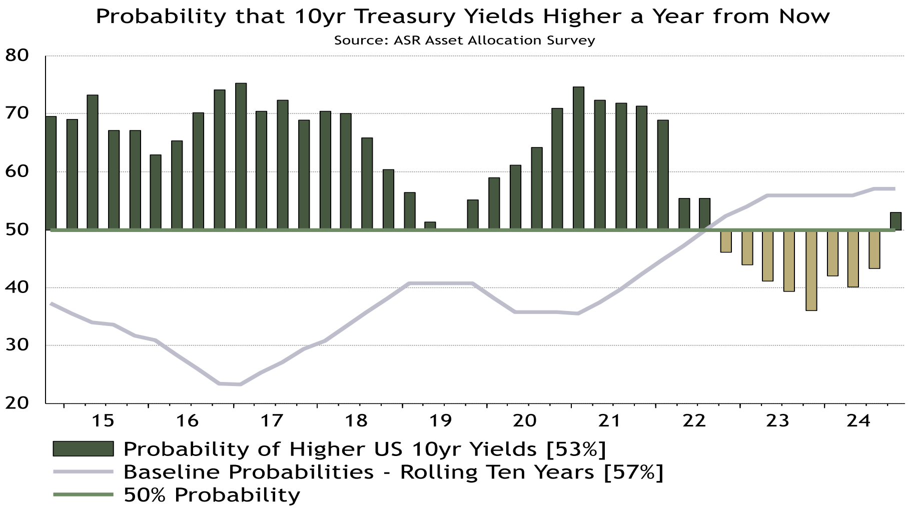
This rethink on the pace of policy easing (particularly in the US) has begun to impact the probability of lower 2-year UST yields




Source: ASR Ltd. / LSEG Datastream

Our panel now thinks the probability of higher 10-year Treasury yields a year from now is now back above 50%

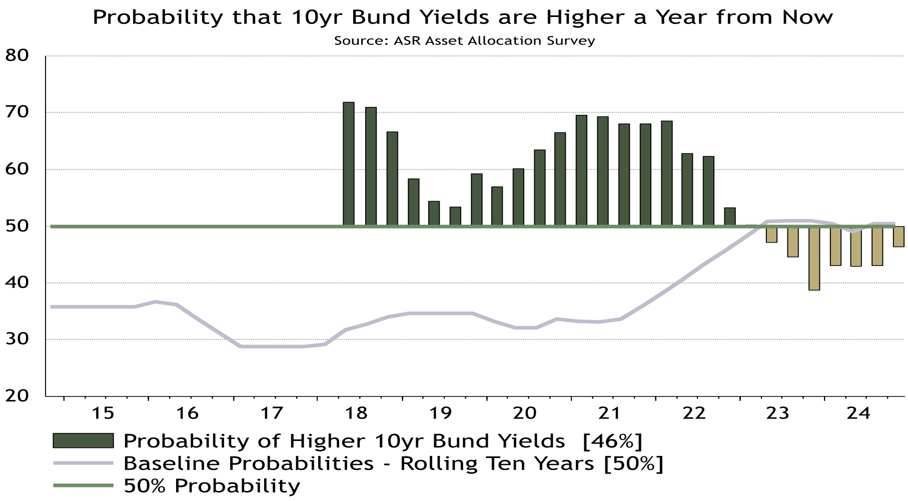
### AAS. 11: Probability of Higher 10yr UST Yields a Year from Now




Source: ASR Ltd. / LSEG Datastream

One of the things that has not changed materially is the view on Bund yields over the coming year

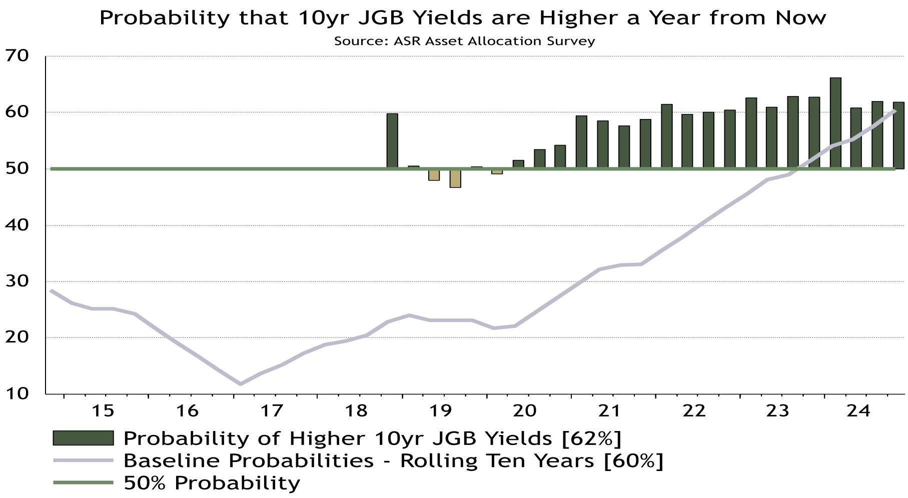
### AAS. 12: Probability of Higher 10yr Bund Yields a Year from Now




Source: ASR Ltd. / LSEG Datastream

Investors continue to expect higher JGB yields, with an implied probability of more than 60% for the ninth quarter running

### AAS. 13: Probability of Higher 10yr JGB Yields a Year from Now

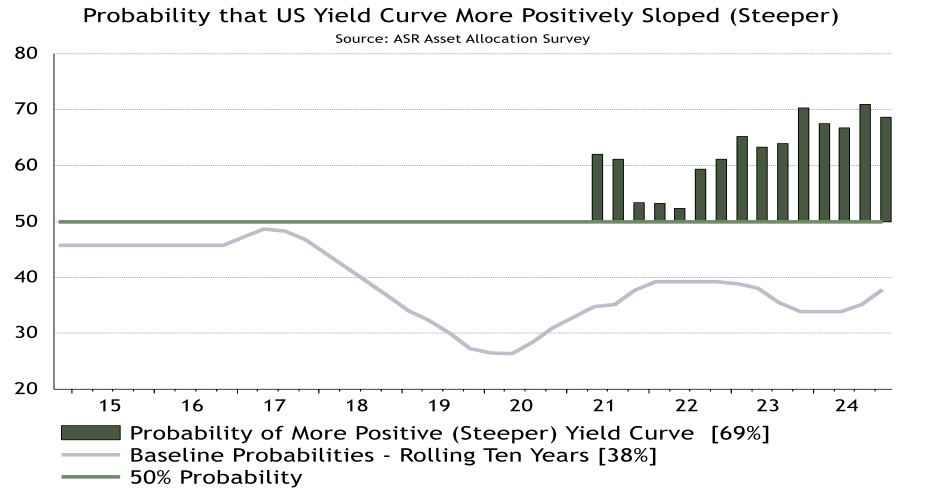



Source: ASR Ltd. / LSEG Datastream

What is a surprise is that investors continue to place almost a 70% probability on a more positive sloping yield curve over the coming year

Interestingly, a third of the panel expect a 'bear steepener' while only a fifth expect the more classic 'bull steepener'

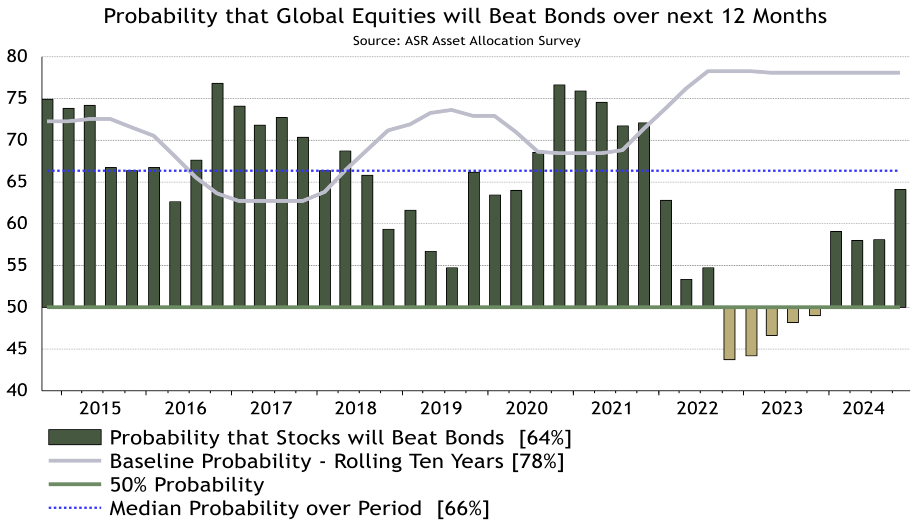
### AAS.14: Probability that US Yield Curve will be Steeper




Source: ASR Ltd.

With higher yields and stronger corporate earnings, our panel has raised the probability that Global Stocks will outperform Global Bonds over the next 12 months to 64%

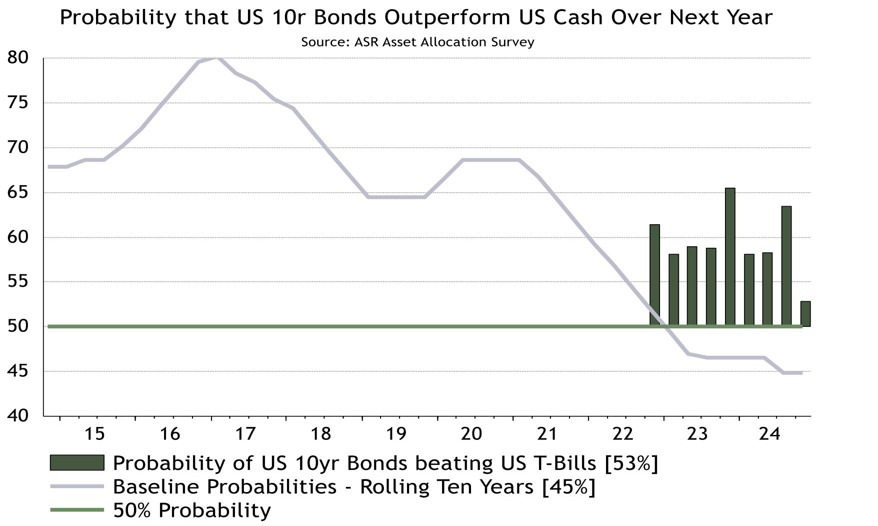
### AAS.15: Probability that WD Equities will Outperform WD Bonds




Source: ASR Ltd. / LSEG Datastream

Interestingly, investors now think that there is little to choose between the return from US 10yr Treasuries and that from US Cash in 2025

### AAS.16: Probability that US Treasuries Will Outperform US Cash

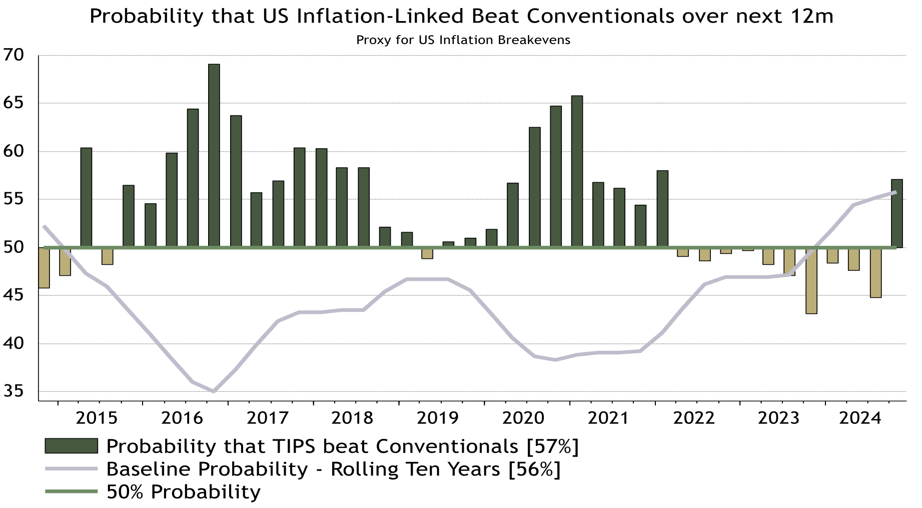



Source: ASR Ltd. / LSEG Datastream

Another big shift in Asset Allocation preference is for TIPS over Conventionals …

… this is consistent with the worries about the prospects for higher US core inflation

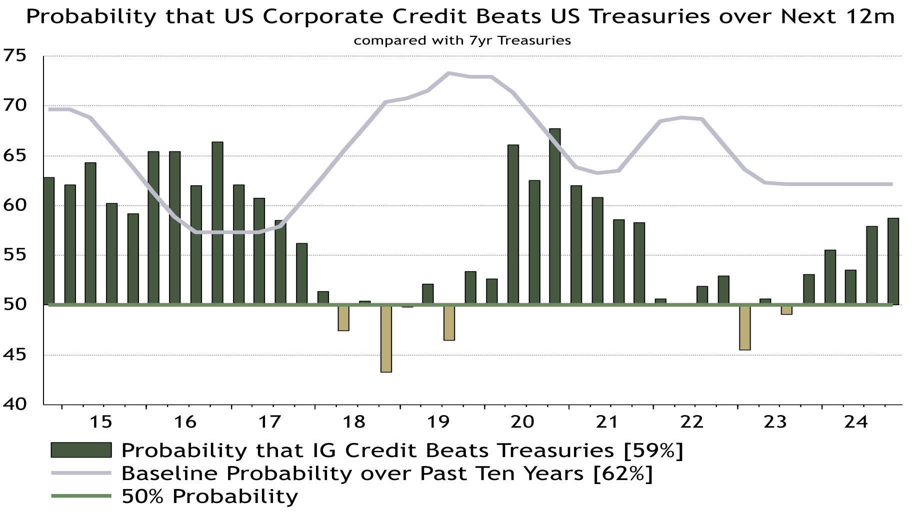
## AAS.17: Probability that US TIPS Will Beat Conventionals




Source: ASR Ltd. / LSEG Datastream

Trump's victory appears to have reinforced the preference for US Corporate Credit over US Treasuries, helped in part by the improved outlook for corporate earnings …

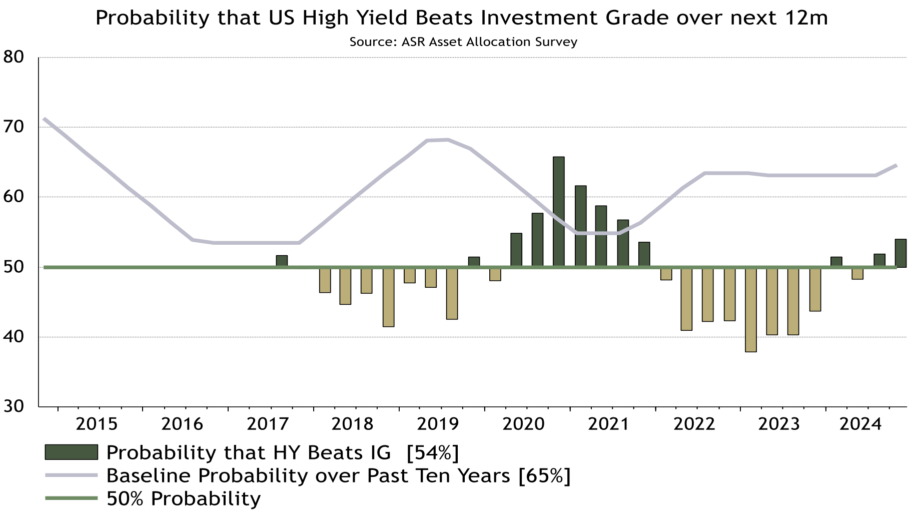
## AAS.18: Probability that US IG Credit will Beat Treasuries




Source: ASR Ltd. / LSEG Datastream

… however, despite this, our panel still shows little confidence that US High-Yield Credit will outperform US Investment-Grade Debt over the next 12 months

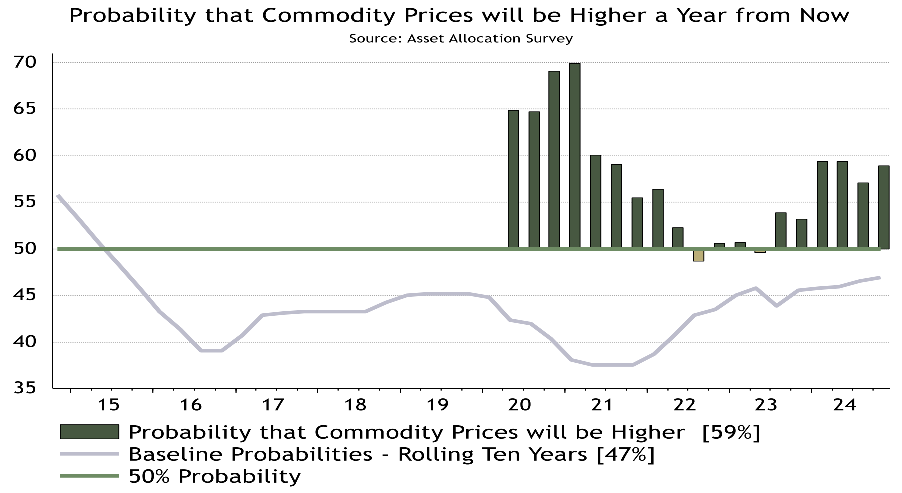
## AAS.19: Probability that US HY Credit will Beat US IG Credit




Source: ASR Ltd. / LSEG Datastream

There has been little change in the expectations for commodities ...

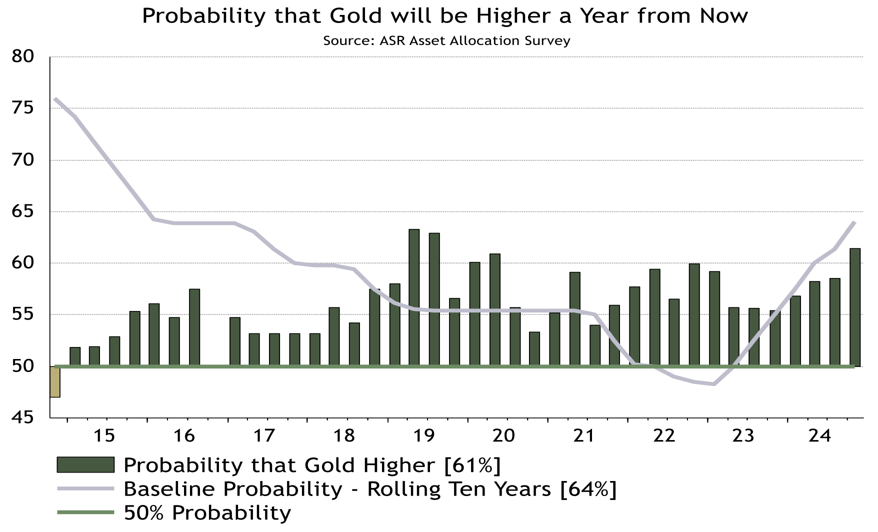
## AAS.20: Probability that Commodity Prices will be Higher ...




Source: ASR Ltd. / LSEG Datastream

... but investors have turned more positive on Gold, with the third highest probability in a decade that the price will be higher in 12m time

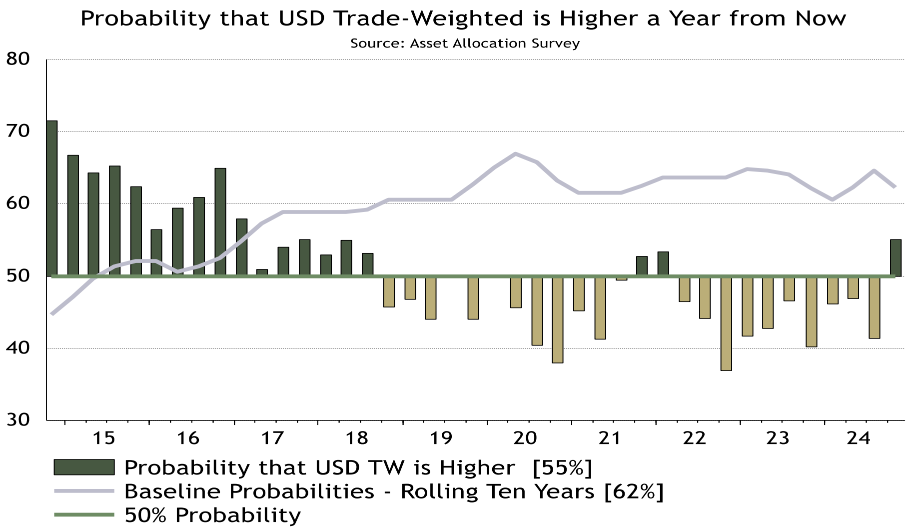
## AAS.21: Probability that Gold will be Higher a Year from Now




Source: ASR Ltd. / LSEG Datastream

There has been a big positive swing in sentiment towards the USD over the past quarter ... leading to the highest probability of USD appreciation in more than six years

## AAS.22: Probability that US Dollar will be Higher a Year from Now



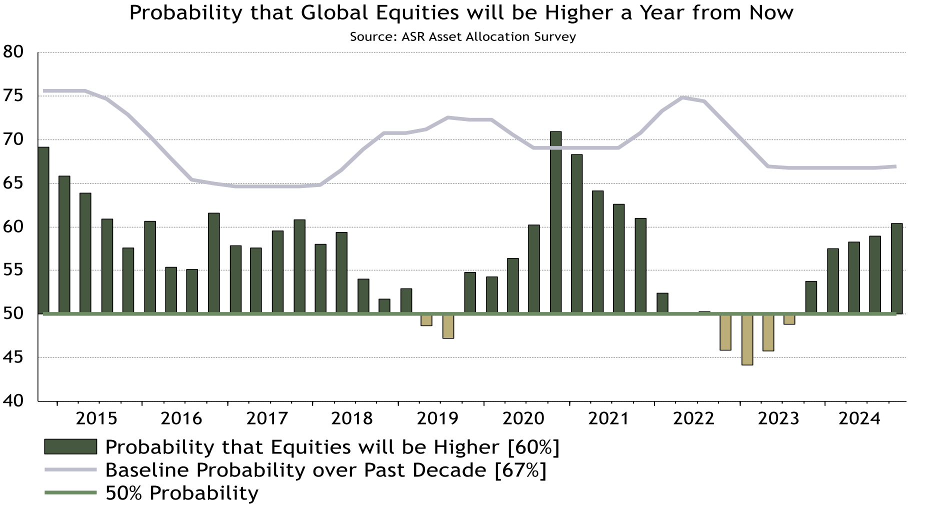

Source: ASR Ltd. / LSEG Datastream

## Equity Markets

### AAS.23: Probability that Global Equities will be Higher in 12m Time

Our panel has increasing confidence that Global Equities will rally further over the next 12 months …

… at 60% the implied probability is the highest in more than two years




Source: ASR Ltd. / LSEG Datastream

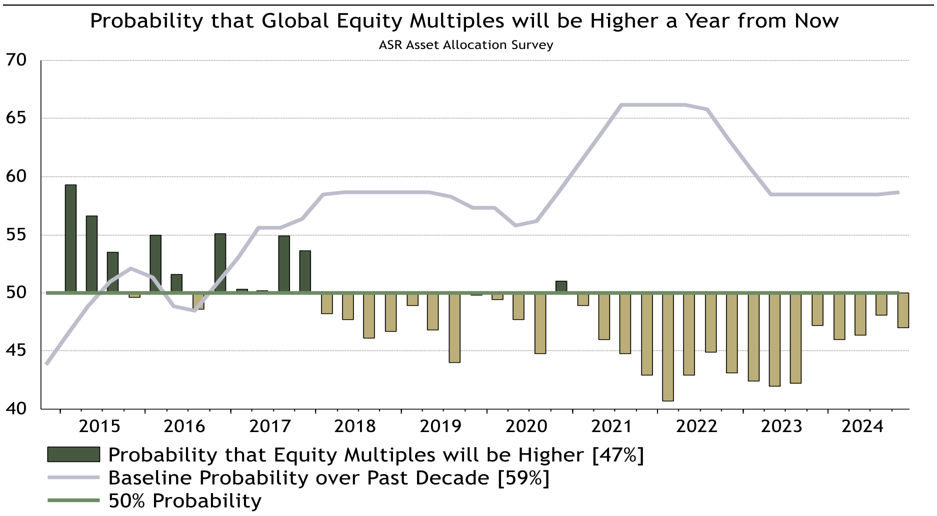
### AAS.24: Probability that Global Corporate Earnings will be Higher

There is also a big step-up in optimism towards Global corporate earnings – consistent with the ASR view that this is increasingly an earnings-driven market


Source: ASR Ltd. / LSEG Datastream

### AAS.25: Probability that Global Equity PEs are Higher in 12m Time

But the panel see equities as richly priced … and remain sceptical that the market can sustain higher valuations




Source: ASR Ltd. / LSEG Datastream

## Intra-Equity Expectations

We take a deeper dive into the responses to the intra-equity market questions

There is no alternative to US Equities, according to our panel. They have adopted the most positive stance on US vs non-US Equities since our survey began, with an implied probability of 63%. When we look by demographics, our European panellists are almost as positive (65%) on US versus non-US equities as North American based panellists (68%). There has also been a loss of confidence in EM vs DM, where the implied probability of the former outperforming the latter has fallen 7%pts from 50% in Q3 to 43%. The more bullish USD outlook hasn't helped.

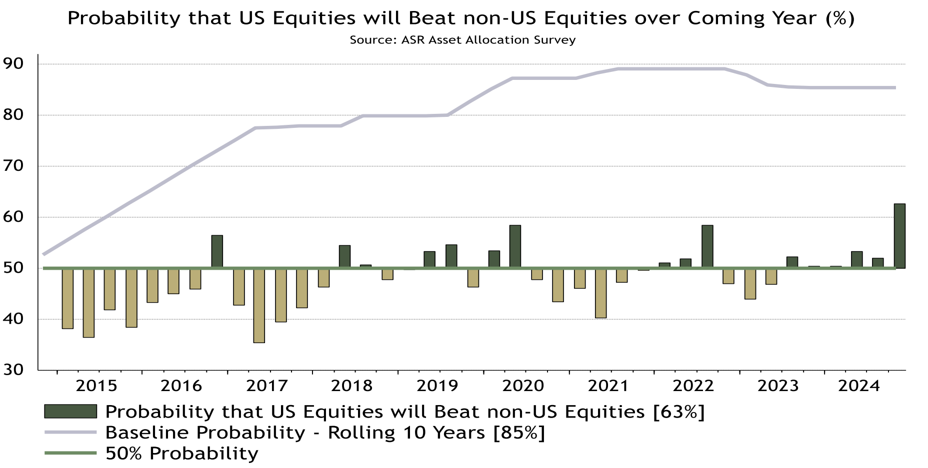
TINA is back for US equities

The panel has also turned more positive on Cyclicals vs Defensives, with a 7% rise in the implied probability to 56%. Our panel is the most positive on Cyclicals since the post-Covid rebound. In contrast, the panel has become less positive on Tech vs Financials over the last quarter with an implied probably of 50% (Q3 53%). Perhaps this reflects scepticism around the ability of Equity valuations to move higher, in which case the positive stance towards US stocks is driven more by a broadening out of earnings growth. Our panel remains marginally positive on Value vs Growth at 52%, but has become modestly more optimistic about the ability of US Small Caps to beat Large Caps (57%).

There has been a big shift in the panel's preference for US vs non-US equities. Our panel has never been this confident of American Stocks versus those of the Rest of the World

There has been an associated loss of confidence on Emerging Mkts vs Developed – reflecting the stronger dollar outlook (not shown)

**AAS.26: Probability that US Equities outperform non-US**

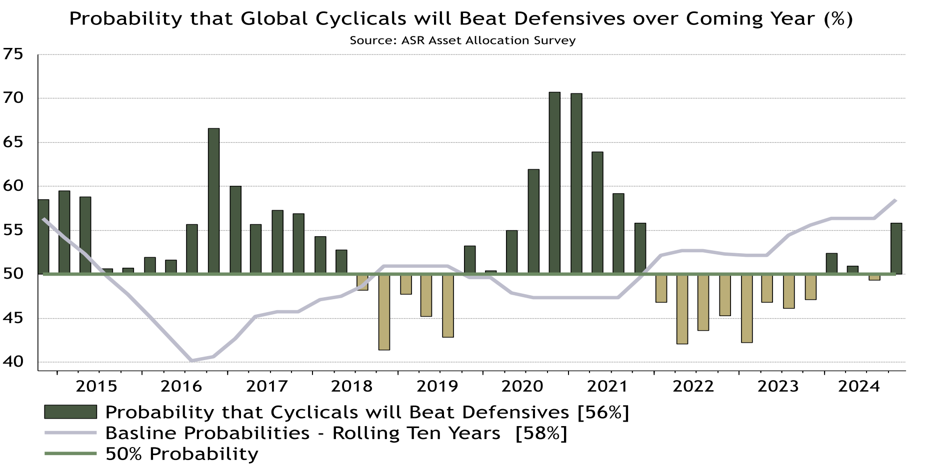



Source: ASR Ltd.

**AAS.28: Probability that Cyclicals will beat Defensives**

Our panel is also expecting Cyclicals to beat Defensives...

...and have recorded their most confident pro-cyclical stance since the post-Covid recovery of 2020/21

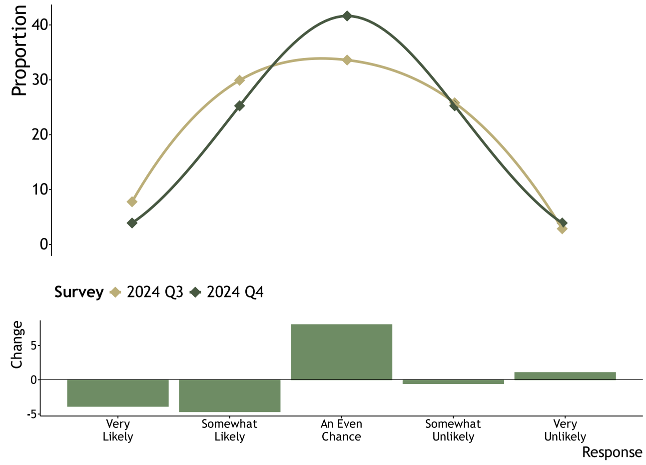



Source: ASR Ltd. / LSEG Datastream

Our panel has become much more ambivalent about Tech beating Financials, with the latest implied probability down to 50% from 56% in Q3 …

… with this cooling on Tech maybe being linked to those fears about Equities being expensive...

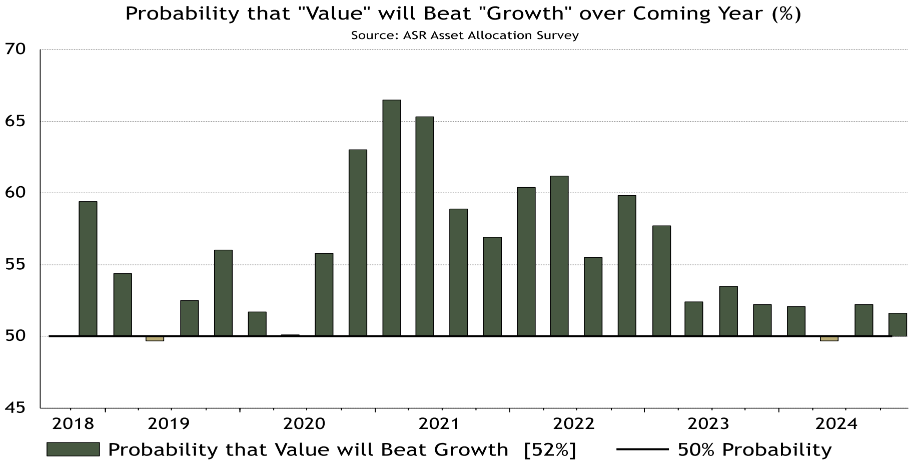
### AAS.27: Probability that Tech will outperform Financials




Source: ASR Ltd. / LSEG Datastream

This might explain the continued (albeit marginal) preference for Value …

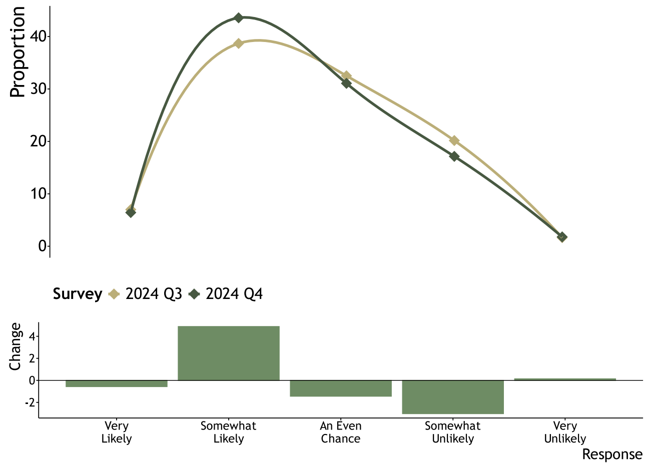
### AAS.29: Probability that Value vs Growth




Source: ASR Ltd. / LSEG Datastream

… and the modest rise in expectations that Small will outperform Large to an implied probability of 57%

### AAS.30 Change in Probability that Small Caps will beat Large




Source: ASR Ltd. / LSEG Datastream

## Recession Risk Divides the Panel While Inflation Divides the Bulls

Our most likely split of the panel is into three groups:

- 47% Non-inflation growth
- 28% Inflationary growth
- 24% Recession bears

After the US election, two of these groups expect inflation to be higher …

… while the more bearish group is smaller than in Q3

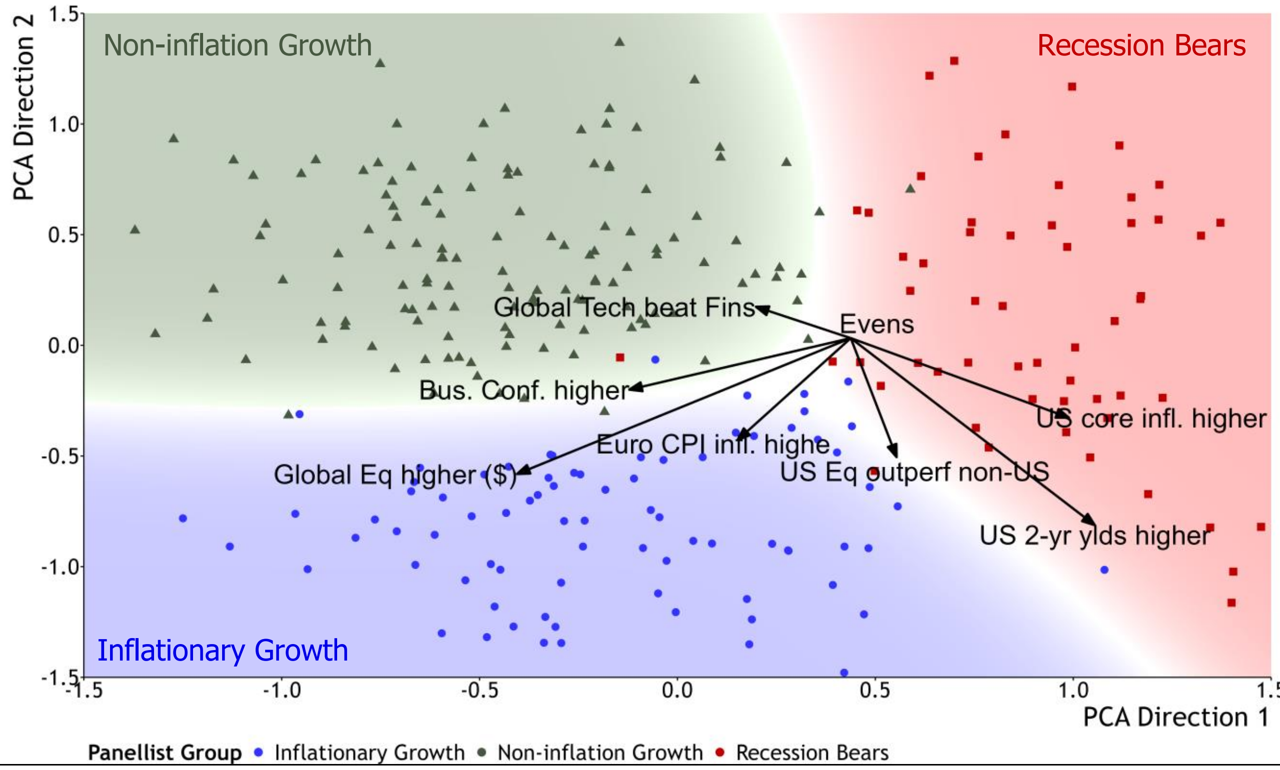
Our Bayesian grouping algorithm is unsupervised, since we do not pre-define the number of groups or each group's views. Instead, we interpret the average response of each group (AAS.32), to understand their views and to give the group an appropriate descriptive name

Through the prism of our groups analysis, our panel divides into three groups, according to views on inflation and activity/recession. We find that almost half the panel (47%) expects that we will see continued growth without inflation accelerating - leading to a more positive environment for risk assets ('***Non-Inflation Growth***'). A further 28% of the panel also expect continued growth, but expect it will be accompanied by higher inflation ('***Inflationary Growth***'), with rising Bond yields. The third group, of 24%, take a less optimistic view and expects a recession with higher inflation ('***Recession Bears***'), but this group is smaller than the 30% 'Hard Landing' bears in Q3's poll.

None of the three groups expect monetary policy to tighten. They all expect Fed funds rate to fall, but the Inflationary Growth group sees the 2-year Treasury Yields rising as the bond market agitates for higher rates. With policy rates not rising, US Credit is only a marginal concern, even for the Recession group. Even though the AI-7 stocks have dominated market commentary, we find that this is not a significant debate within the panel: the recession group sees the highest probability that Tech outperforms Banks, but this might be because they don't like the banks in this scenario. Meanwhile both Growth groups are neutral on this sector switch. One surprise is that the expectations on inflation have little impact on the intra-equity views of these two groups. Finally, there is a unity of views over currencies: USD and JPY will be stronger, with EUR and EM weaker.

A Principal Component Analysis provides a picture of the division found by our Bayesian algorithm. It reduces the 39 survey questions into just two dimensions (**AAS 31**) and plots the stance of each panellist. The arrows show how 'Very Likely' responses to particular questions can shift the position of a panellist.

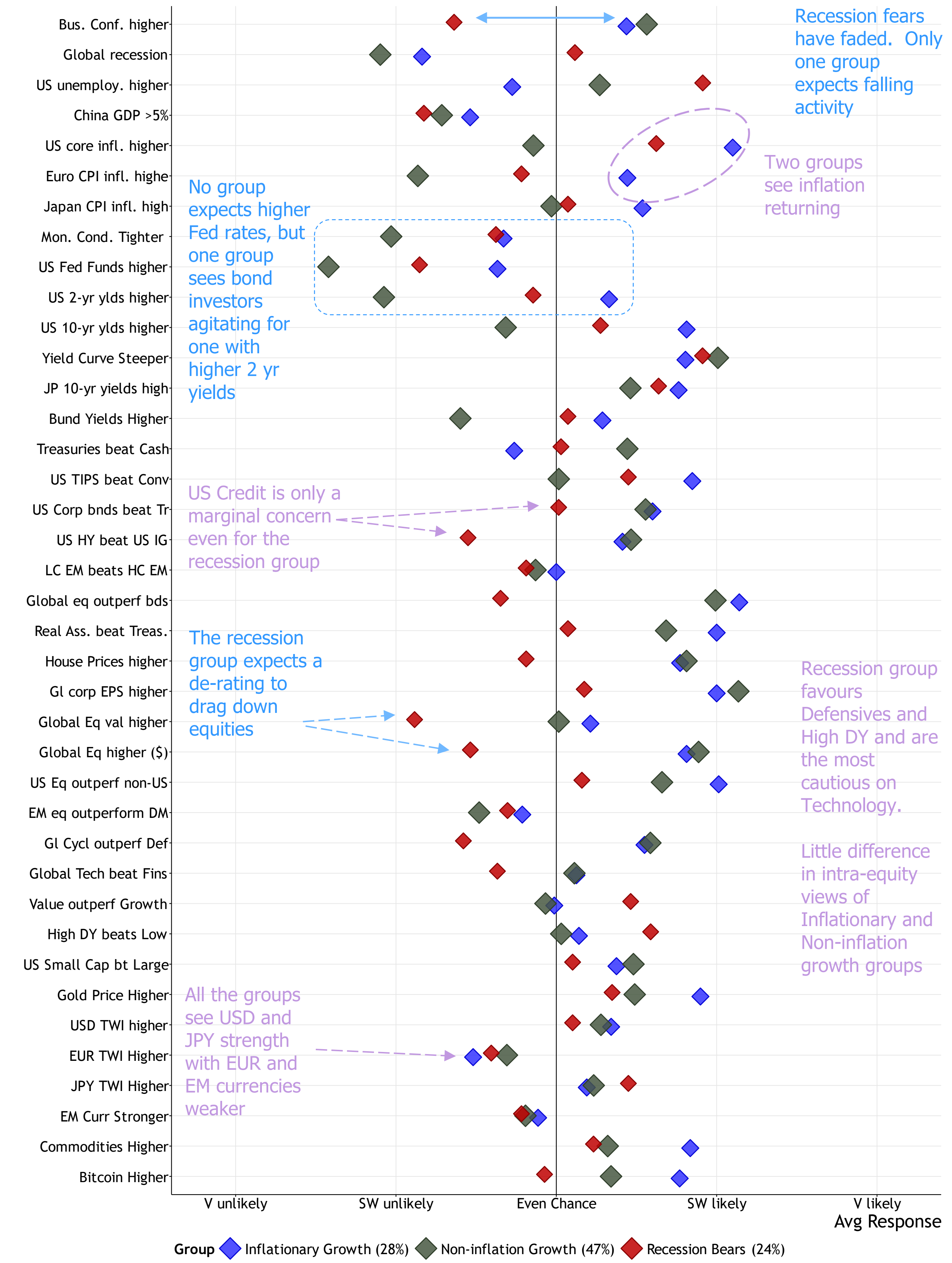
**AAS.31: Division between three groups - after PCA which Reduces Responses to 2 dimensions**




Note: the length of the arrows, showing the impact of questions, has been extended for clarity

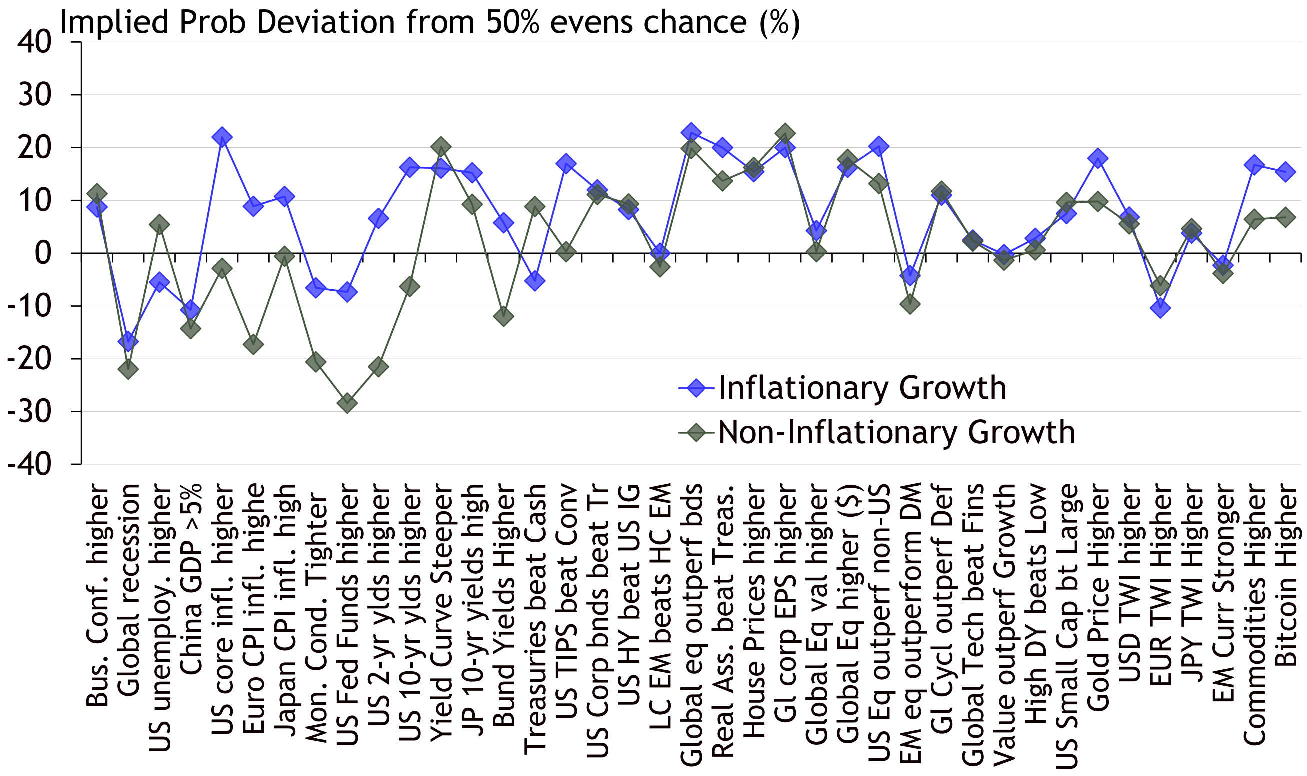
Source: ASR Ltd.

**AAS.32: Average Response of the three Groups Identified by our Machine Learning Analysis**



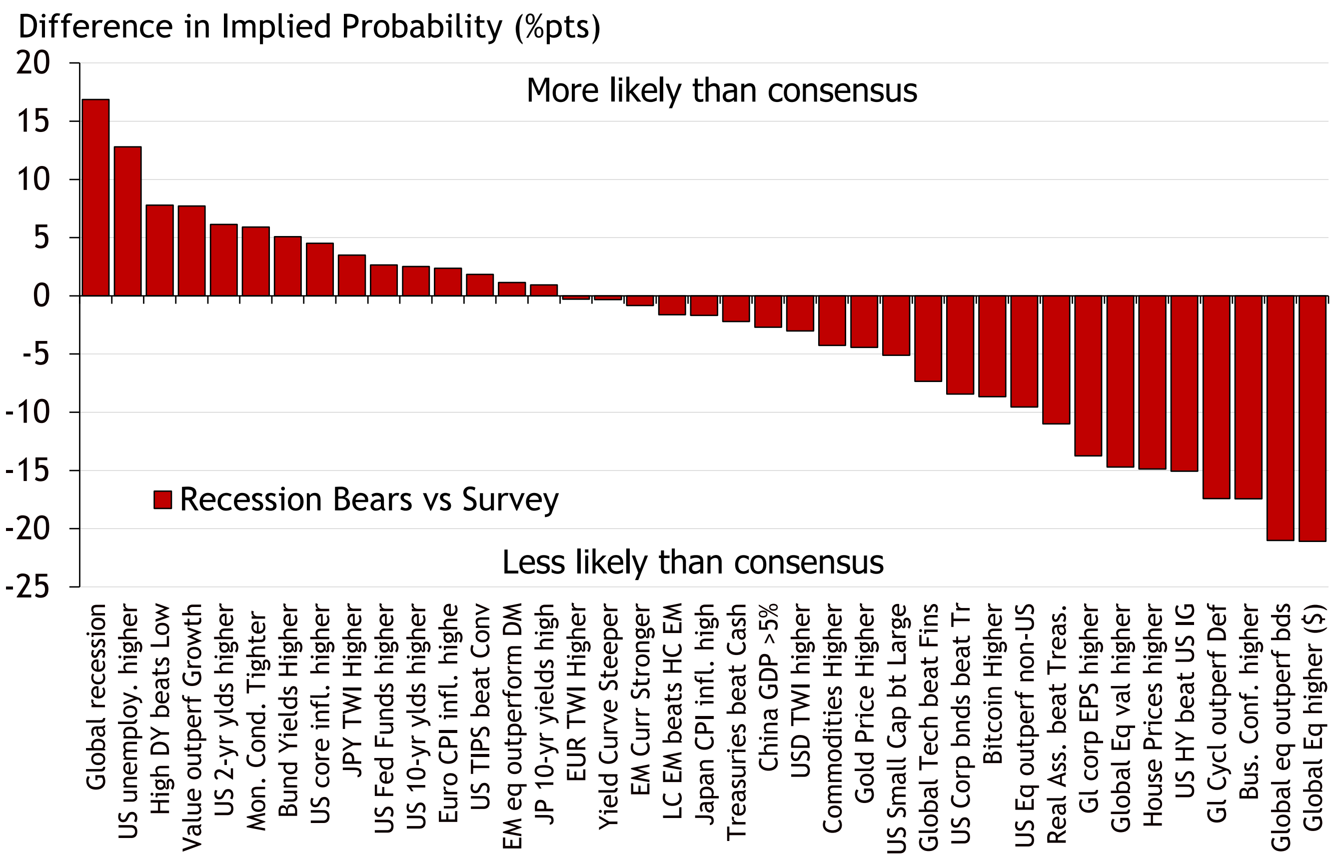

Source: ASR Ltd.

**AAS.33: Comparison of 'Non-inflation Growth' (47%) with 'Inflationary Growth' (28%)**




Source: ASR Ltd.

**AAS.34: Comparison of 'Recession Bears' (24%) with Survey Consensus**

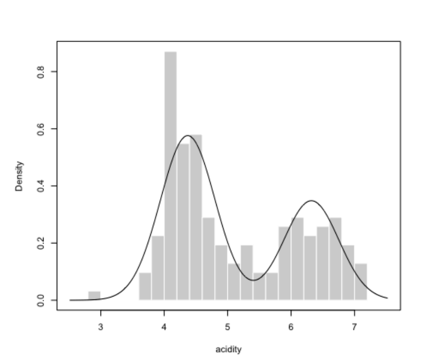



Source: ASR Ltd.

### Methodology - How we find our groups of similar investors

The basis of this group analysis is that there are only a limited number of generic categories of investor and an investor's answers are the combination of their generic categories' answer and some individual variation (i.e. 'noise').

**AAS.35: Fitting two normal distributions to a dataset**




Source: W. Härdle, Fraley & Raftery

We try to classify investors into one of these generic categories. Our approach is 'unsupervised': ahead of the analysis we do not know either the number of generic categories, or even their views! However, this is not an insurmountable problem. We can use a Bayesian approach: that is, we create a model of the generic categories and see whether we can get it to fit the data. The parameters of the model (the number of clusters and their means and variances) are then adjusted until the 'most likely' model is found. So, in the example in AAS. 35, the data are the bars, which are modelled by superimposing two normal distributions (each distribution represents a generic type). Increasing the number of distributions might lead to a better fit. However, this runs the risk of over-fitting, and so each extra group increases a penalty factor when calculating the *goodness of fit*.

Transferring this idea to our survey, the bars would be the responses to a question, and so the two distributions in the chart are equivalent to two basic investor categories. Of course, our survey has over 37 questions with discrete responses, which makes the maths more complex in practice, but we are still able to solve using the algorithms provided by the `mclust` package in R.

## Demographics of Panel and Summary Results

The Table highlights some of the Survey "extremes"

### AAS. 36: Most Certain, Most Uncertain & Most Divisive Questions

| | Very Likely | Likely | Even Chance | Unlikely | Very Unlikely | Implied Prob. |
|---|---|---|---|---|---|---|
| **Most Likely (highest implied probability)** | | | | | | |
| Yield Curve Steeper | 21 | 56 | 17 | 5 | 0 | 68.6 |
| Gl corp earnings higher | 19 | 59 | 12 | 10 | 0 | 67.2 |
| Global eq outperf bonds | 19 | 49 | 19 | 12 | 2 | 64.1 |
| **Most Unlikely (lowest implied probability)** | | | | | | |
| US Fed Funds rate higher | 3 | 6 | 13 | 45 | 33 | 30.3 |
| Global recession within 12 montł | 1 | 10 | 22 | 50 | 17 | 35.5 |
| China Real GDP Growth >5% | 0 | 14 | 21 | 44 | 20 | 36.2 |
| **Most Uncertain (Highest proportion of Even Chances)** | | | | | | |
| Japan CPI inflation higher | 4 | 32 | 42 | 21 | 1 | 53.1 |
| Global Tech beat Fins | 4 | 25 | 42 | 25 | 4 | 50.0 |
| EM Curr Stronger | 1 | 21 | 41 | 34 | 4 | 46.5 |
| **Most Divisive (Most bimodal distribution)** | | | | | | |
| US HY beat US IG | 6 | 42 | 23 | 24 | 5 | 54.0 |

Source: ASR Ltd

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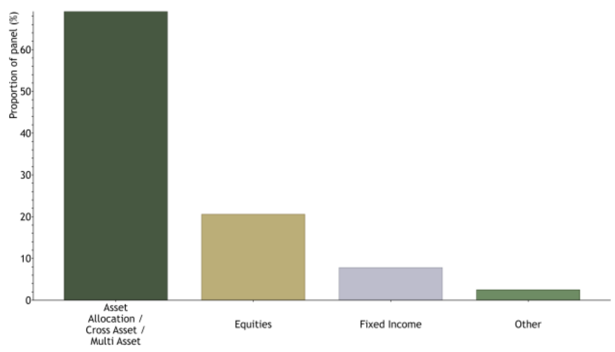
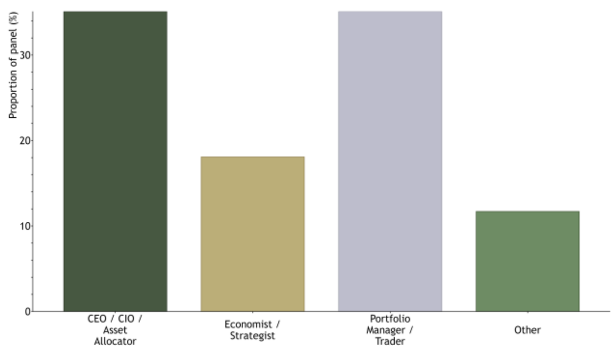
### AAS. 37: Asset Class Expertise



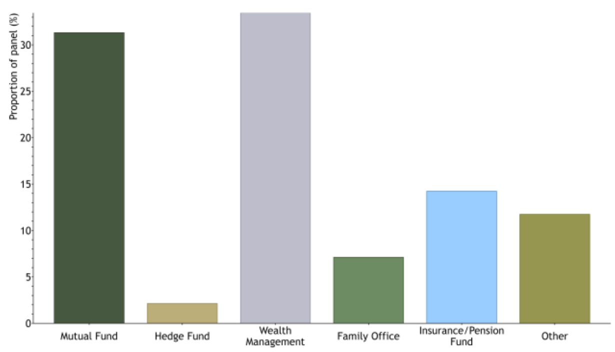

Source: ASR Ltd

### AAS. 38: Role



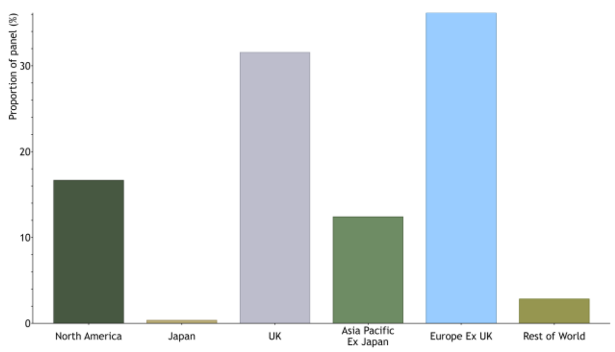

Source: ASR Ltd

### AAS. 39: Type of Investor




Source: ASR Ltd

### AAS. 40: Location




Source: ASR Ltd

Our 282 panellists work in teams that manage over $11.1trillion of assets. The fieldwork for the survey was conducted through an on-line survey between 14th to 20th November 2024.

## AAS.41: Summary of Responses – 2024 Q4

| | Proportion of Panel | | | | | Implied |
|---|---|---|---|---|---|---|
| (%) | Very Likely | Likely | Even Chance | Unlikely | Very Unlikely | Probability |
| Business Confidence higher | 7 | 37 | 31 | 22 | 3 | 55 |
| Global recession within 12 months | 1 | 10 | 22 | 50 | 17 | 36 |
| US unemployment higher | 7 | 40 | 29 | 21 | 3 | 56 |
| China Real GDP Growth >5% | 0 | 14 | 21 | 44 | 20 | 36 |
| US core inflation higher | 13 | 37 | 29 | 19 | 2 | 58 |
| Euro CPI inflation higher | 4 | 21 | 23 | 42 | 10 | 43 |
| Japan CPI inflation higher | 4 | 32 | 42 | 21 | 1 | 53 |
| Monetary Conditions Tighter | 2 | 11 | 21 | 50 | 16 | 37 |
| US Fed Funds rate higher | 3 | 6 | 13 | 45 | 33 | 30 |
| US 2-yr yields higher | 4 | 15 | 25 | 45 | 12 | 41 |
| US 10-yr yields higher | 6 | 34 | 33 | 23 | 4 | 53 |
| Yield Curve Steeper | 21 | 56 | 17 | 5 | 0 | 69 |
| JP 10-yr yields higher | 9 | 48 | 35 | 8 | 0 | 62 |
| Bund Yields Higher | 4 | 20 | 37 | 31 | 8 | 46 |
| Treasuries beat Cash | 7 | 35 | 27 | 27 | 4 | 53 |
| US TIPS beat Conv | 6 | 43 | 34 | 18 | 0 | 57 |
| US Corp bnds beat Treas | 6 | 51 | 26 | 15 | 2 | 59 |
| US HY beat US IG | 6 | 42 | 23 | 24 | 5 | 54 |
| Loc Cur EM bonds beat Hard Cur | 1 | 27 | 35 | 34 | 3 | 48 |
| Global eq outperf bonds | 19 | 49 | 19 | 12 | 2 | 64 |
| Real Assets beat Treasuries | 10 | 56 | 22 | 12 | 1 | 62 |
| House Prices higher | 16 | 42 | 27 | 13 | 3 | 61 |
| Gl corp earnings higher | 19 | 59 | 12 | 10 | 0 | 67 |
| Global equity val higher | 2 | 25 | 34 | 34 | 5 | 47 |
| Global equities higher ($) | 8 | 53 | 26 | 11 | 3 | 60 |
| US eq outperform non-US | 16 | 47 | 22 | 14 | 1 | 63 |
| EM eq outperform DM | 1 | 18 | 31 | 43 | 7 | 43 |
| Global cycl outperf def | 5 | 44 | 28 | 22 | 1 | 56 |
| Global Tech beat Fins | 4 | 25 | 42 | 25 | 4 | 50 |
| Value outperf Growth | 4 | 32 | 36 | 27 | 2 | 52 |
| High DY beats Low | 4 | 37 | 37 | 22 | 1 | 54 |
| US Small Cap beat Large | 6 | 44 | 31 | 17 | 2 | 57 |
| Gold Price Higher | 14 | 45 | 26 | 13 | 1 | 61 |
| USD TWI higher | 5 | 39 | 35 | 20 | 1 | 55 |
| EUR TWI Higher | 1 | 14 | 36 | 44 | 6 | 42 |
| JPY TWI Higher | 7 | 35 | 38 | 19 | 1 | 56 |
| EM Curr Stronger | 1 | 21 | 41 | 34 | 4 | 47 |
| Commodities Higher | 5 | 52 | 27 | 15 | 1 | 59 |
| Bitcoin Higher | 14 | 32 | 35 | 15 | 5 | 57 |

Source: ASR Ltd.

## Methodology – What we Mean by 'Implied Probabilities'

- ASR's Multi-Asset Survey is a Survey of Probabilities.
- Every quarter we contact over 200 asset allocators and multi-asset strategists from around the world.
- We ask them "how likely" they think certain financial and economic events are to occur in the next 12 months. All thirty questions are framed with a binary outcome (will 'X' happen, or will it not happen?) with a fixed time horizon. Each question offers five options: (1) very likely (2) somewhat likely, (3) even chance, (4) somewhat unlikely, (5) very unlikely.
- We then ascribe notional probabilities to each of the five options. For example, if someone responds "very likely", we apply a 90% probability to their response, "somewhat likely" is given a 70% probability. If they reply "very unlikely", we apply a 10% probability. If someone says "even chance", then we apply a 50% probability.
- By applying different probabilities to the responses, we can calculate an overall probability. This is more sophisticated than other surveys, which just calculate a "net balance" (e.g. % respondents that are 'optimists' minus % respondents that are 'pessimists'). Our approach captures differences in convictions.
- Small changes in the implied probabilities matter: a 5%-point change over a quarter can indicate an important shift. A 10%-point change can reflect a profound change in expectations.
- These "implied probabilities" are powerful as they can be used in multiple ways. First, we can compare them with the probabilities that are implied in the market. Secondly, we can compare them with our own views and see where we are most different from the consensus. And thirdly, we can compare them with the historic baseline probability (how often has this event occurred over the past decade).
- For example, an implied probability of 50% may sound like a neutral call, but if the event has only occurred 20% of the time over the past decade, then this 50% probability is in fact a much more aggressive call that it may first appear. It is 'big' relative to the history of the past ten years.





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